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SAPAWE GOLD MINES LIMITED

Annual Report

1965

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BOARD OF DIRECTORS

J. C. D. BOUCHARD
President, Bouchard & Co. Ltd.

SCOTT W. ERICKSON
Contractor

RUDOLPH KRIZE
Real Estate Investor and Horse Breeder

WILLARD J. La MORTE
President, Shattuck Denn Mining Corporation

JOHN A. MOSS
President, Richmond Screw Anchor Company of Canada Limited

THOMAS V. TOZZI
Attorney, Chairman, Shattuck Denn Mining Corporation

WILLIAM M. ZILBERSHER
President, Alasil Corporation
Mining & Processing Industrial Minerals

OFFICERS

President	—	WILLARD J. La MORTE
Vice President	—	ALLISON F. HEATHER
Treasurer	—	W. H. CONNOLLY
Secretary	—	EILEEN McBAIN
Asst. Secretary-Treasurer	—	ELIZABETH DILLON

CAPITALIZATION

Authorized 10,000,000 Shares ..... $1.00 Par Value
Issued 8,292,376 Shares

REGISTRAR and TRANSFER AGENT

CROWN TRUST COMPANY
Toronto and Montreal, Canada

EXECUTIVE OFFICE

1015 Beaver Hall Hill
Montreal, Canada

ENGINEERING and MANAGEMENT ADMINISTRATORS

Canadian Beaver Mining Company Limited
1015 Beaver Hall Hill
Montreal, Canada

MINE OFFICE

Box 759
Atikokan, Ontario

AUDITORS

SOUPCOFF, STARKMAN, KRAFT & CO.
3101 Bathurst Street
Toronto, Canada

The stock of Sapawe Gold Mines Limited is listed on the Canadian Stock Exchange.

The information herein contained is for the existing shareholders of the Company exclusively and there is no offer to sell or inducement to buy intended within the meaning of Canadian or United States securities laws.

Management's Report

Dear Shareholder :

During the year 1965, your company expended the major portion of its efforts on research, development and expansion. This was found to be necessary in order to adequately prepare for your company's production of gold in 1966.

Total "free world" gold output amounted to approximately $1.4 billion, valuing gold at $35 per ounce. Of this amount Canada produced $125 million, a decrease of $8 million. The United States on the other hand, produced $60 million, an increase of $9 million over the preceding year. The majority of the world production again came from South Africa where over a billion dollars worth of gold was produced.

Gold continued to be used by the majority of countries of the world as an international reserve asset. In addition gold continued in strong demand in the arts and industry. The usage of gold in industry has continued to increase and it is estimated that consumption in the U.S. alone during 1965 approximated $200 million against $170 million in 1964. While accurate figures are not available, it is estimated that nearly $.5 billion of gold was absorbed by the industrial arts throughout the world which would be approximately one-third of the total gold production. Vying for gold with industry and the arts was the traditional demand which absorbed roughly $1 billion and went into private "hoards". East Asia, and particularly India, the Middle East and some areas of Europe have always held gold as a hedge against inflation and currency devaluation. Often it is held in anticipation of a rise in the price of gold.

Therefore, knowing the approximate consumption by industrial users and the arts and by the changes in official reserves between countries, we can assume that almost $1 billion disappeared into private "hoards" last year. Many countries and individuals have hopes of a quick profit through speculative purchases of gold in anticipation of a rise in price.

The U.S. gold stock during the first half of 1965 declined by almost $1.5 billion. Efforts are being made to stop the outflow of gold from the U.S. but to date these efforts have had little effect. Many economists believe that this will eventually result in devaluation and an increase in the price of gold. Gold presently sells on the black market in some countries as high as $65.00 per ounce as compared to the U.S. price of $35.00 per ounce.

In view of the increased demands for gold, it behooves your management to continue directing their efforts towards production of gold in sufficient quantities, at the lowest cost possible, which will enable your company to make profits under the existing selling prices of gold. In this way, should the price increase, your company will be in a position to take advantage of the change in price. Therefore, during 1965 it was determined that in order to produce sufficient gold economically, it was necessary to increase reserves by development of the mine and to increase the production of the mill as well. To provide for the expansion of the mining and milling facilities, additional machinery and equipment totalling $40,000 was purchased during 1965.

MINE DEVELOPMENT

During the year the # 1 shaft was deepened 665′ from its former depth of 350' to a new depth of 1015'.

Three new levels were established the 520', the 720' and the 920' horizons and a skip-loading pocket was excavated at the 980' elevation.

During the year, 27,881 cu. ft. of station slashing, 14,272 cu. ft. of sundry slashing, 1370.5 ft. of cross-cutting to the ore zone, and 550' of drifting to east and west along the ore zone were completed.

Preparations for stoping were resumed on the 1st Level (170') and 2nd Level (320').

Lateral development work on the three new levels, including cross-cutting from the shaft to the ore structure, and further drifting on the ore structure amounted to 1920 feet.

MILLING

The original mill, which, during intermittent operation in 1964, had proven to be inadequate was removed from regular operation in December 1964. During the first period in January 1965 it was utilized as a pilot mill to test the ore-making potential of the silicified and mineralized quartz-porphyry zones.

Samples of this material were submitted to the Mineral Processing Division of the Mines Branch, Ottawa and to Canadian Industries Ltd. for testing. This has resulted in changing the flowsheet to use jigging and amalgamation, followed by flotation and cyanidation of the flotation concentrate. Tests showed that this type of flowsheet would result in a recovery of 94.1% of the gold and there is every reason to believe that the results obtained in the laboratory can be duplicated in the commercial milling plant.

GEOLOGY

The underground development program thus far has confirmed, to the 920' horizon, the geological structure as indicated by the logs of surface diamond drill holes. It has also demonstrated that the rock associations and conditions which engendered the ore already mined above the 320 Level persists to the 920 Level, and that the favourable structure is open to both East and West.

The strength of the structure and the persistence of the ore making conditions, as exhibited on the 920 Level, indicates that the structure continues to depth.

Your management believes that utmost caution must be exercised in estimation of grade and tonnage of reserves at this early stage of production.

It will be necessary to complete the drifting on all of the new levels before an accurate estimate can be made. From previous work, it is believed that a grade approximating 0.30 ounces of gold per ton can be expected. As development proceeds, calculations will be made and passed on in progress reports to the shareholders.

On June 1, 1965, your company entered into an agreement with Canadian Beaver Mining Company Limited, a wholly-owned Canadian subsidiary of Shattuck Denn Mining Corporation, U.S.A., whereas Canadian Beaver would furnish to Sapawe Gold Mines Limited all administrative services, office space, accounting, engineering, technical and legal services as required in the ordinary routine affairs of the company. Special engineering, independent auditing, travel expenses incurred on special projects, etc., would be for the account of Sapawe Gold Mines. For these services, Canadian Beaver is paid a monthly fee of $3,000 which is subject to cancellation by either party upon 60 days' notice.

THE 1966 OUTLOOK

Milling commenced on December 27, 1965 to treat the muck from development work. However, numerous mechanical and labor difficulties which are common to any new operation prevented a continuous mill operation.

These problems are gradually being corrected and it is expected that milling will shortly be on a regular basis.

It has been estimated by management that a break-even point can be obtained on the operation on a 250 ton per day basis. A profit should be realized when the tonnage exceeds this rate and every effort is being made to bring the mine and mill to this stage.

Hoisting capacity of the mine will handle 500 tons per day and the mill capacity can be increased to this figure in stages by the addition of flotation cells, an additional grinding unit and other accessory equipment. As soon as the flotation cells have been installed, and this has almost been completed now, the mill capacity will be 125 tons per day and mill feed will come from stoping on the 1st and 2nd levels and the development headings.

It is hoped to have the mill and mine capable of handling 300 tons per day by July, 1966 and a further increase to 500 tons per day when mine development is sufficiently advanced to make this practical.

Your company qualified for assistance under the Emergency Gold Mining Assistance Act and received $26,760.74 for the gold produced in 1964. Since there was no gold produced in 1965, we do not anticipate receiving any payments for this period in 1966.

Predicated on the progress being made by your company, it will be the policy of the management to utilize part of the funds realized through any underwritings and option agreements, as well as from profits, for further development of Sapawe's main property; for continued study, exploration and possible acquisition of other promising properties; for participation in new, and/or already going operations and for payment of its operating expenses.

Your management is appreciative of the encouragement received from the shareholders and their constructive interest in the company's progress. We are confident that 1966 will be the turning point in the growth of your company.

Respectfully submitted,

A. F. Heather, P. Eng. (Ont.)
Vice President

March 28, 1966.
Sapawe, Ont.

SAPAWE GOLD

(Incorporated Under the La

BALANCE SHEET AS

ASSETS

	1965	1964
Current Assets		
Cash	$ 22,617.93	$ 37,710.56
Cash on deposit with broker	150,514.02	—
Sundry receivable	795.88	225.00
Estimated amount receivable under The Emergency Gold Mining Assistance Act	29,734.15	—
Bullion on hand	—	8,391.60
Advance to other limited company	—	43,344.73
Supplies - at cost	8,252.69	—
Prepaid expenses	865.00	—
	$ 212,779.67	$ 89,671.89
Security Deposits - at cost (quoted market value 1965 $5,805.00 - 1964 $4,950.00)	$ 5,735.00	$ 4,740.00
Mining Claims and Properties (Notes 1 and 2)	$ 194,500.00	$ 199,500.00
Fixed Assets (at cost)		
Machinery and equipment	$ 453,571.30	$ 445,671.28
Mine buildings	115,327.73	116,805.22
	$ 568,899.03	$ 562,476.50
Other Assets		
Re-organization expenses	$ 3,642.00	$ 3,642.00
Expenses re-issue of income bonds	12,000.00	4,000.00
Expenses re registration with the Securities and Exchange Commission, Washington, D.C.	34,400.00	34,400.00
	$ 50,042.00	$ 42,042.00
Exploration, Development and Administrative Expenses Deferred (per attached statement)	$1,442,967.58	$1,023,691.18
	$2,474,923.28	$1,922,121.57

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

SCOTT W. ERICKSON
Director

WILLARD J. La MORTE
Director

The accompanying Notes to Balance Sheet are an integral part of this Balance Sheet. To be read in conjunction with the Auditors' Report to the Shareholders attached hereto date March 28, 1966.

INES LIMITED

the Province of Ontario)

DECEMBER 31, 1965

LIBILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

	1965	1964
Accounts payable and accrued liabilities	$ 78,291.90	$ 117,792.25
Wages payable	9,392.25	10,054.25
Trust funds payable	2,172.37	2,328.74
Chattel mortgages payable	2,812.00	11,072.07
Loan payable - Transterre Explorations Limited	150,000.00	—
Loan payable to shareholder	—	4,345.00
	$ 242,668.52	$ 145,592.31

Long-Term Liabilities

6% Redeemable income bonds due September 1, 1972 (Notes 4 and 5)	15,000.00	300,000.00
Chattel mortgages payable ($13,884.07 less current portion $11,072.07)		2,812.00
	$ 15,000.00	$ 302,812.00

Accounts Payable to Contractor -

In dispute (Note 3)	$ 90,138.36	$ 90,138.36
	$ 347,806.88	$ 538,542.67

Shareholders' Equity

Capital Stock

Authorized

10,000,000 shares, par value $1.00 each

Issued (Note 6)

8,292,376 shares (1964 - 4,185,966 shares)	$8,292,376.00	$4,185,966.00
Less : Discount thereon	6,523,146.50	3,160,274.00
	$1 ,769,229.50	$1,025,692.00
Contributed Surplus (no change during period)	357,886.90	357,886.90
	$2,127,116.40	$1,383,578.90
	$2,474,923.28	$1,922,121.57

SAPAWE GOLD MINES LIMITED

NOTES TO BALANCE SHEET

DECEMBER 31, 1965

1. **Details of Mining Properties and Claims and basis of valuation.**
   Patented claims in the Township of Cardiff, Ontario at the value placed upon 450,000 presently constituted shares of the company's capital stock issued therefor ..... $ 90,000.00

   Fifty-two mining claims (of which 36 are unpatented and 16 are patented) in the Townships of McCaul and Hutchinson, Ontario. Thirty-nine of these claims were acquired by purchase at the value placed upon 152,500 presently constituted shares of the company's capital stock issued therefor, of which 87,500 are donated shares of the company's capital stock (see note 2) plus $36,000.00 cash. (The remaining thirteen claims in the Township of McCaul acquired by staking have not been valued). 104,500.00

   $194,500.00

2. Out of the 92,000 donated shares of the company's capital stock as presently constituted held in escrow and to be dealt with only on the written direction of the company and the Ontario Securities Commission, 75,000 shares were used in 1960 to satisfy the requirements of an agreement to purchase mining claims and 12,500 shares were used during 1962 to satisfy the requirements of a further agreement to purchase more claims (see Note 1). The remaining 4,500 donated shares are held by the Crown Trust Company in trust for the company.

3. Under the terms of an agreement dated September 8, 1960 in respect of the construction of mine and mill buildings, supplying and installing machinery, sinking of a shaft and preparing underground workings, the contractor has claimed from the company the sum of $290,138.36 of which $200,000.00 has been paid. The company relying on the terms of the contract in question denies any liability for payment of the balance claimed by the contractor of $90,138.36. On April 8, 1963 the contractor commenced an action in the Supreme Court of Ontario against the company in connection with the aforementioned balance claimed. The company is defending the action and is counterclaiming for damages for breach of contract in the amount of $100,000.00.
   A former employee has instituted an action against the company claiming arrears of salary and disbursements in the amount of $4,222.40; the claim is being denied by the company and the company is defending the action.

4. By a deed of trust and mortgage dated September 1, 1964 the company has created $400,000.00 of 6% redeemable income bonds maturing on September 1, 1972.
   The bonds are redeemable at the option of the company in whole or in part prior to maturity at the principal amount thereof, plus accrued and unpaid interest, if any, plus a premium of 6% of such principal amount up to and including September 1, 1966, thereafter the premium decreasing 1% for each year commenced or elapsed to September 1, 1971 and thereafter and prior to maturity at the principal amount thereof.
   The bonds are convertible into fully paid and non-assessable shares of the company on the basis of 6,666 shares for each $1,000.00 principal amount of bonds converted.

The bonds, when originally issued, carried detachable share purchase warrants entitling the holders thereof to purchase 4,000 shares in the capital stock of the company for each $1,000.00 principal amount of bonds. The warrants are exercisable to September 1, 1972 at a price per share equal to 75% of the market price for shares of the company on the business day preceding the date of exercising the said warrants.

5. Bonds in the amount of $300,000.00 were issued on September 1, 1964. The remaining $100,000.00 of bonds dated December 1, 1964 were issued on January 6, 1965.
Bonds in the amount of $385,000.00 were converted during the year into 2,566,410 shares of the company, and 1,540,000 shares of the company were issued for a cash consideration of $358,537.50 on the exercise of the share purchase warrants (see Note 6).
As at December 31, 1965 the company has reserved 99,990 shares of the capital stock of the company for the conversion of the remaining bonds outstanding and 60,000 shares for the exercise of the share purchase warrants.

6. The following shares of Sapawe Gold Mines Limited were issued during the year ended December 31, 1965.

	Number	Par value	Discount	Net Consideration
Balance, January 1, 1965	4,185,966	$4,185,966.00	$3,160,274.00	$1,025,692.00
Add :				
Issued on conversion of $385,000.00 Income Bonds	2,566,410	2,566,410.00	2,181,410.00	385,000.00
Issued for cash on exercise of share purchase warrants	1,540,000	1,540,000.00	1,181,462.50	358,537.50
Balance, December 31, 1965	8,292,376	$8,292,376.00	$6,523,146.50	$1,769,229.50

Pursuant to an underwriting agreement dated as of March 19, 1966 the company has agreed to sell 400,000 shares of capital stock to be taken down in two blocks of 200,000 shares at 25¢ ($50,000.00) and 200,000 at 30¢ ($60,000.00) each block within three days and thirty days respectively after acceptance of the company's Prospectus by Governmental Regulatory Bodies (the effective date). The underwriter has been granted an option on 200,000 additional shares of the capital stock of the company at 35¢ per share ($70,000.00) within three months from the effective date.

SAPAWE GOLD MINES LIMITED

STATEMENT OF DEVELOPMENT AND OTHER EXPENDITURES DEFERRED FOR THE YEAR ENDED DECEMBER 31, 1965

Development Expenditures		
Mining		
Underground mining and development	$122,487.14	
Shaft sinking	150,662.49	
Power	13,648.55	
Workmen's compensation and silicosis	6,998.34	
Mine supervision salaries	26,184.00	
Assays and sampling	1,703.01	
General exploration expenses	1,755.36	
Equipment maintenance and repairs	2,089.02	
Insurance	2,341.51	
Mine office and warehouse expenses	5,403.15	
Camp and commissary equipment and supplies	15,724.37	
Engineering salaries and expense	5,596.66	
Sundry mining expenses	2,423.79	
Yards and roads	9,185.91	
Fire loss	2,127.32	$368,330.62
Milling		
Grinding	$ 8,067.44	
Cyanide operation expenses	5,444.03	
Mill maintenance and repairs	1,053.06	
Crushing	5,695.03	
Flotation	1,580.19	
Mill testing and sampling	979.49	22,819.24
TOTAL MINING AND MILLING EXPENSES		$391,149.86
Deduct : Bullion recoveries	$ 2,230.07	
Estimated income under the Emergency Gold Mining Assistance Act	29,734.15	31,964.22
carried forward . . . **DEVELOPMENT EXPENDITURES**		$359,185.64

SAPAWE GOLD MINES LIMITED

STATEMENT OF DEVELOPMENT AND OTHER EXPENDITURES DEFERRED FOR THE YEAR ENDED DECEMBER 31, 1965

brought forward . . . DEVELOPMENT EXPENDITURES		$359,185.64
Administrative and Corporate Expenses		
Management and administrative fees	$ 36,000.00	
Travelling expenses	2,745.72	
Office expenses	2,634.31	
Legal and audit	6,238.48	
Interest, bank charges and exchange	6,242.88	
Telephone and telegraph	1,996.30	
Transfer agent fees and charges	2,961.60	
Listing expenses	780.58	
Shareholders information	1,488.55	
	$ 61,088.42	
Less : Miscellaneous revenue	997.66	60,090.76
EXPENDITURES FOR THE PERIOD		$419,276.40
Balance Deferred at December 31, 1964		1,023,691.18
Balance Deferred at December 31, 1965		$1,442,967.58

SUMMARY OF EXPENDITURES DEFERRED

Exploration and Development Expenditures	
Township of Cardiff	$ 7,259.92
Township of McCaul	1,114,606.45
	$1,121,866.37
Administrative expenses	321,101.21
	$1,442,967.58

Auditors' Report

To the Shareholders,
Sapawe Gold Mines Limited.

We have examined the balance sheet of Sapawe Gold Mines Limited as at December 31, 1965 and the statement of development and other expenditures deferred for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of development and other expenditures deferred present fairly the financial position of the company as at December 31, 1965 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Respectfully submitted,

SOUPCOFF, STARKMAN, KRAFT & CO.
Chartered Accountants.

March 28, 1966.
Toronto, Ontario.